U.S.-China Economic and Security Review Commission

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Highlights of This Month's Edition

- **U.S.-China Trade:** In April 2021, U.S. goods exports to China were up 36.7 percent year-on-year, continuing a marked recovery from the pandemic in spite of ongoing bilateral trade tensions.
- **New EO Redefines and Expands Investment Restrictions:** The Biden Administration has revised and expanded prohibitions on U.S. investment in Chinese companies which act contrary to U.S. national security; the list of companies subject to restrictions has grown from 44 to 59, with 17 companies removed and 32 added.
- **Multilateral and Bilateral Developments:** G7 joint statement highlights shared concerns about Chinese economic and human rights policies; APEC communiqué expresses common desire to improve vaccine access for Asia-Pacific economies; U.S. economic trade officials hold calls with their Chinese counterparts.
- **Commodity Prices Surge:** China's National Development and Reform Commission published a five-year action plan on pricing reform while regulators attempt to address spiking commodities prices.
- **In Focus – Wealth Management:** Wall Street seizes on China's $18.9 trillion asset management market as the Chinese government accelerates regulatory approvals to attract foreign capital and expertise.

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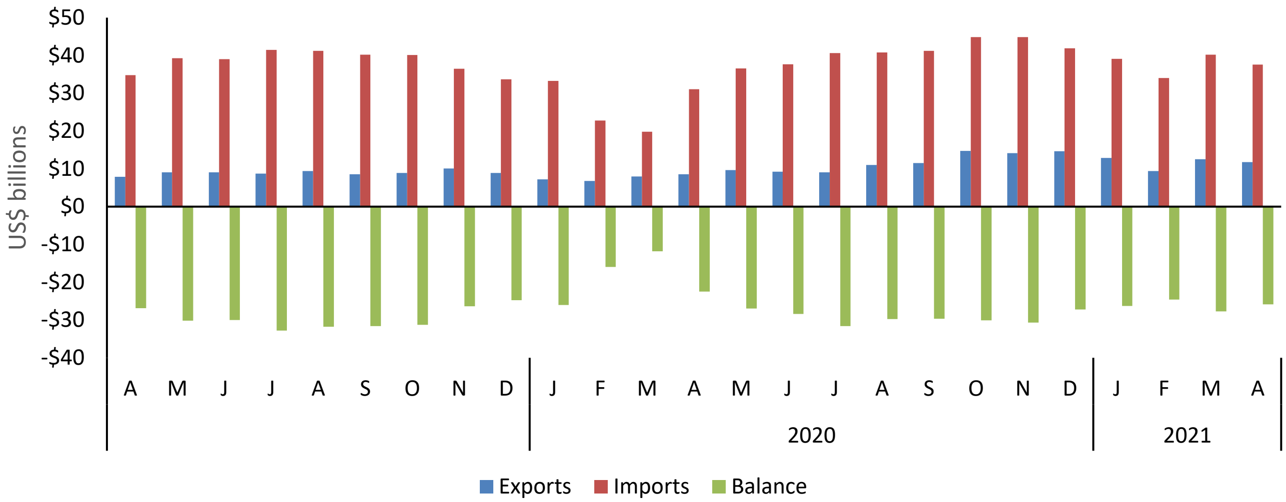
This issue of the Economics and Trade Bulletin *was prepared by Nargiza Salidjanova, Charles Horne, Kaj Malden, Leyton Nelson, Emma Rafaelof, and Taylore Roth. You may reach us at* contact@uscc.gov.

U.S.-China Goods Trade Continues to Show Strong Recovery

In April 2021, U.S. goods exports to China were up 36.7 percent year-on-year, reaching 11.8 billion.[1] U.S. goods imports from China were up 21 percent year-on-year to reach $37.6 billion, leading to a deficit of $25.8 billion (see Figure 1).[2] Year-to-date, the U.S. goods trade deficit with China reached $104.3 billion, up 36.6 percent from the same period in 2020.[3] Robust U.S.-China goods trade reflects strong economic recovery in both countries.

Figure 1: U.S.-China Goods Trade, April 2019–April 2021



Source: U.S. Census Bureau, *Trade in Goods with China*, June 8, 2021. *https://www.census.gov/foreign-trade/balance/c5700.html#questions*.

Robust U.S. exports in April 2021 include China's Phase One deal purchases, but Chinese imports overall continue to fall short of committed targets. According to Chad Bown, senior fellow at the Peterson Institute for International Economics, China's purchases of U.S. goods covered under the Phase One agreement totaled $47.1 billion through April 2021.[4] U.S. exports of covered goods in April 2021 totaled $7.9 billion, putting the U.S. exports under the agreement at $34.5 billion year-to-date, still $22.9 billion short of the year-to-date goal.[5] Under its year-to-date commitments, China has reached 87 percent of agricultural purchases and 71 percent of manufactured goods purchases, but only 56 percent of energy purchases.[6]

U.S. Ban on Investment in Chinese Military Companies Expands

The Biden Administration released a new executive order (EO) modifying and expanding the list of Chinese military companies facing U.S. investment restrictions. The EO on "Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China," released June 3, 2021, replaces an executive order issued by the Trump Administration in November 2020 (EO 13959).[7] EO 13959 prohibited "any transaction in publicly traded securities" issued by companies determined by the U.S. Department of Defense (DOD) to have ties to China's military or its military-civil fusion program.[*] [8] The list originally encompassed 31

[*] Military-civil fusion is China's policy to leverage the capabilities of civilian sectors and civilian innovation to drive military development through a combination of policies and government-supported mechanisms. Due to the breadth and opacity of the strategy, it is increasingly likely that commercial partnerships between the United States and China could be used to develop China's defense sector. U.S.-China Economic and Security Review Commission, *2019 Annual Report to Congress*, November 2019, 205. *https://www.uscc.gov/sites/default/files/2019-11/Chapter%203%20Section%202%20-%20Emerging%20Technologies%20and%20Military-Civil%20Fusion%20-%20Artificial%20Intelligence,%20New%20Materials,%20and%20New%20Energy.pdf*.

"Communist Chinese Military Companies" (CCMCs),* but grew to 44 CCMCs by January 2021.[9] The Biden Administration redefined the criteria for Chinese companies subject to U.S. government restrictions, expanding the list to 59 companies, removing 17 companies restricted under EO 13959, and adding 32 new companies (for a full list, see appendix).[10] The new EO also transfers authority to designate companies subject to investment restrictions from DOD to the U.S. Department of the Treasury. Investment restrictions go into effect on August 2, 2021.[11]

The new EO reframes the scope of Chinese companies subject to investment restrictions. Redefining EO 13959, the Biden Administration introduced three criteria for Chinese companies subject to U.S. government restrictions: (1) defense contractors; (2) surveillance technology companies; and (3) companies with corporate affiliates in either sector or ties to other firms listed in the order.[12] The new order explicitly seeks to respond to Chinese companies that "undermine the security or democratic values of the United States and [its] allies," in addition to restricting investment in firms directly involved in China's military industrial complex, a shift in focus from EO 13959.[13] According to a White House fact sheet, companies that fall into the second category include Huawei and smart camera maker Hikvision, both of which were previously designated as CCMCs and are also listed under the first category.[14] The third category includes previously listed CCMCs, such as China's three major telecommunications operators,† but it also adds two wholly-owned subsidiaries of Huawei: Proven Glory Capital Limited and Proven Honour Capital Limited.[15] Both are domiciled in tax havens and issue corporate bonds on behalf of Huawei.[16]

The new EO eliminates investment prohibitions on some Chinese firms with clear military ties. At least two firms that are no longer subject to investment restrictions have nonetheless been implicated in activities the threaten U.S. national security. For instance, Dawning Information Industry Co. (Sugon), restricted under EO 13959, was added to the Department of Commerce's Entity List‡ in June 2019 for its leading role in the Chinese military's development of supercomputers.[17] Others firms no longer subject to restrictions have clear ties to the People's Liberation Army (PLA), even if they are not subject to other U.S. government restrictions. For example, China State Construction Group Co., Ltd. provides infrastructure and logistics services to the PLA.[18] The conglomerate's Second Engineering Bureau was formed from the 99th Infantry Division of the People's Liberation Army, and since 2017 has been certified by the State Administration of Science, Technology, and Industry to conduct military-related business.[19]

Legal setbacks from Chinese firms successfully challenging their EO 13959 CCMC designations in court prompted concerns about the viability of Trump Administration restrictions. Xiaomi (a smartphone maker) and Luokung (a big data processor) challenged their designation as CCMCs before the U.S. District Court for the District of Columbia and were granted preliminary injunctions in March and May 2021, respectively.[20] Court opinions for both injunctions said U.S. government-furnished evidence of the companies' ties to China's military

* Pursuant to Section 1237 of the 1999 National Defense Authorization Act (NDAA), DOD has been required to maintain classified and unclassified versions of a list of CCMCs and share it with Congress and relevant U.S. government agencies annually since 1999. Section 1237 initially defined CCMCs as companies identified in two Defense Intelligence Agency publications (VP-1920-271-90, dated September 1990 and PC-1921-57-95, dated October 1995) and any other entity "owned or controlled by the PLA [including the intelligence services] and is engaged in providing commercial services, manufacturing, producing, or exporting." This definition has evolved in subsequent NDAAs. The 2005 NDAA adds that entities are considered CCMCs if they are "affiliated with" the PLA or are owned by, controlled by, or affiliated with "a ministry of the government of the People's Republic of China or that is owned or controlled by an entity affiliated with the defense industrial base of the People's Republic of China." The 2021 NDAA further expanded ownership to companies "directly or indirectly owned … or acting as an agent on the behalf of" the PLA or other organizations "subordinate to the Central Military Commission of the Chinese Communist Party" and targets any company "identified as a military-civil fusion contributor to the Chinese defense industrial base." William M. Thornberry National Defense Authorization Act for Fiscal Year 2021 § 1259, Pub. L. No. 116-283, 2021. *https://www.congress.gov/bill/116th-congress/house-bill/6395/text*; Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 § 1222, Pub. L. No. 108-375, 2005. *https://www.govinfo.gov/content/pkg/PLAW-108publ375/html/PLAW-108publ375.htm*; Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 § 1237, Pub. L. No. 105-261, 1999. *https://www.congress.gov/105/plaws/publ261/PLAW-105publ261.pdf*.

† These include China Mobile, China Telecom, and China Unicom.

‡ The Entity List (Supplement No. 4 to part 744) identifies entities reasonably believed to be involved, or pose a significant risk of being or becoming involved, in activities contrary to the national security or foreign policy interests of the United States. U.S. Department of Commerce, Bureau of Industry and Security, "Addition of Entities to the Entity List," *Federal Register* 84:98 (May 21, 2019).

was insufficient to justify their designations as CCMCs.* [21] Following the Xiaomi injunction, DOD removed the company from the list of CCMCs.[22] The adverse legal action raised concerns that more CCMCs would challenge the investment restrictions in court.[23] GOWIN semiconductor, a CCMC subject to restrictions under the Trump administration's EO, submitted a complaint to the DC District Court challenging its designation on May 21.[24]

The new EO appears to respond to legal challenges from some companies designated as CCMCs by the Trump administration. Though neither the new EO nor the supplementary fact sheet issued by the White House reference the legal challenges, both Luokung and GOWIN are among the 17 firms removed from the revised list.[25] Newly restricted firms and those that remain have clear attributes relating to the three-part framework for investment prohibitions introduced by the new EO.[26] According to the *Washington Post*, Biden administration officials also indicated transferring authority for administering restrictions to the U.S. Department of Treasury would enable the U.S. government to mount a stronger defense in the event of future legal challenges, as the agency could draw on its experience administering other sanctions lists.[27]

Revised Restrictions Focus on Listed Firms

In contrast to the list of CCMCs under EO 13959, most of the additions in the Biden Administration EO are publicly listed on domestic Chinese stock exchanges,† making it easier for U.S. investors to follow investment restrictions.[28] Many of the CCMCs on the old list were central state-owned enterprise (SOE) industrial groups, large conglomerates completely owned by the Chinese government.[29] Foreign investors are unable to hold shares of central SOEs directly, but guidance from Treasury's Office of Foreign Asset Control (OFAC) clarified that investment restrictions imposed by EO 13959 applied to any subsidiary majority-owned by a CCMC.[30]

Responsibility for determining which publicly listed companies fit this criterion and were therefore subject to investment restrictions was left to U.S. investors. In some cases, making such a determination was difficult as the opaque corporate networks of many Chinese SOEs obscure ownership ties.[31] A U.S. Department of State document from January 2021 listed at least 1,100 subsidiaries of the 44 CCMCs, of which more than 100 were listed on Chinese domestic exchanges, but the State Department list was not exhaustive.[32] From the State Department's list, it is not clear which subsidiaries are majority-owned by a CCMC, which would have made them subject to investment restrictions under EO 13959 and OFAC guidance.

Because the Biden Administration EO focuses on publicly listed companies, the expanded list is more limited in impact than the topline increase from 44 to 59 entities would suggest. 28 of the 32 companies added by the new EO are subsidiaries of the 44 companies restricted under the November 2020 EO.[33] Of these, at least half are ultimately majority-owned by CCMCs restricted under the old EO.‡ [34] Based on the OFAC guidance, these companies were

* As such, the designations failed the "arbitrary and capricious test" established by the Administration Procedure Act (APA), according to the ruling. Section 706(2)(A) of the APA indicates courts reviewing regulation may overturn agency actions if they find factual assertions or underlying rationale "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." United States District Court for the District of Columbia, Xiaomi Corporation v. Department of Defense, et al., *Memorandum Opinion: Granting Plaintiffs' Motion for Preliminary Injunction; Granting Plaintiffs' Motion for Leave to File Supplemental Declaration*, March 12, 2021, 7–9. *https://cdn.vox-cdn.com/uploads/chorus_asset/file/22367849/xiaomi_v_us_dept_of_defense.pdf*.

† Four are listed on the Hong Kong Stock Exchange, including China Mobile Limited, China Unicom (Hong Kong) Limited, CNOOC Limited, and CSSC Offshore & Marine Engineering (Group) Company Limited. As of March 31, 2021, all are majority owned by companies previously designated CCMCs, so were already subject to investment restrictions under EO 13959 and supplementary guidance from the Office of Foreign Asset Control (OFAC). China Mobile Limited, China Unicom (Hong Kong) Limited, CNOOC Limited, and CSSC Offshore & Marine Engineering (Group) Company Limited via S&P Capital IQ Database, March 31, 2021; U.S. Department of the Treasury, *Frequently Asked Questions: Chinese Military Companies Sanctions*, December 28, 2020. *https://home.treasury.gov/policy-issues/financial-sanctions/faqs/topic/5671*.

‡ Of these, 11 are listed, including AVIC Shenyang Aircraft Company Limited; China Avionics Systems Company Limited; AVIC Xi'an Aircraft Industry Group Company Ltd; China Marine Information Electronics Company Limited; China Mobile Limited; China Satellite Communications Co., Ltd.; China Unicom (Hong Kong) Limited; CNOOC Limited; CSSC Offshore & Marine Engineering (Group) Company Limited; Inner Mongolia First Machinery Group Co., Ltd.; and Shaanxi Zhongtian Rocket Technology Company Limited. The remaining three are unlisted subsidiaries of Huawei: Huawei Investment & Holding Co., Ltd.; Proven Glory Capital Limited; and Proven Honour Capital Limited. CSSC Offshore & Marine Engineering (Group) Company Limited, *2020 Annual Report*, April 28, 2021, 63; CNInfo and CNOOC Limited via S&P Capital IQ Database, March 31, 2021; China Unicom (Hong Kong) Limited and CSSC Offshore & Marine Engineering (Group) Company Limited via S&P Capital IQ Database, December 31, 2020; Proven Glory Capital, "Notice of Listing on the Stock Exchange of Hong Kong Limited," *Stock Exchange of Hong Kong Limited*, May 6, 2016. *https://www-file.huawei.com/-/media/corporate/pdf/bond-investor-relations/proven_glory_announcement_en.pdf?la=en*; Proven Honour Capital,

already subject to investment restrictions due to AVIC Group's designation as a CCMC.[35] In other cases, newly added companies' largest ultimate shareholders are previously listed CCMCs, but these CCMCs only hold a minority of the companies' shares. Under the OFAC guidance, such companies were not previously subject to investment restrictions.[36] For instance, the largest shareholder of drone maker Aerospace CH UAV Co. Ltd is the China Academy of Aerospace Aerodynamics, a research institute under China Aerospace Science and Technology Corporation (CASC). CASC is on both the old and new lists, but held only 21.8 percent of Aerospace CH UAV Co. Ltd.'s stock at the end of March 2021.[37] Nearly all of the new additions have no listed subsidiaries themselves, so restrictions apply only to the companies on the new list.[*] [38] By contrast, the central SOE industrial groups on the old list have many listed subsidiaries, with AVIC alone counting 24, according to the State Department.[39]

On China, Biden Administration Rallies Partners and Initiates Bilateral Dialog

Multilateralism has emerged as a key pillar of the Biden Administration's strategy to manage tensions with China. Readouts from this year's Group of Seven (G7)[†] Leaders' Summit highlight converging concerns about China's harmful economic, political, and social policies among members, yet a lack of concrete action reflects countries' diverging ideas about how best to counter them. In contrast, statements from this year's Asia-Pacific Economic Cooperation (APEC)[‡] Summit, which was attended by both the United States and China, reflected members' focus on promoting economic recovery by cooperating on strengthening the vaccine supply chain through agreements on tariff reductions for vaccines and related products.

Chinese policies spark pushback from G7 countries and the EU. On May 5, 2021, the G7 foreign and development ministers and high representative of the EU released a joint communiqué which expressed opposition to China's "arbitrary" and "coercive" economic policies.[40] Australia, India, and South Korea, which have been targets of Chinese economic coercion, were included as guest countries in this year's G7 Leaders' Summit, highlighting members' common concerns about Chinese economic practices.[41] The joint statement also denounced China's forced labor and human rights abuses in Xinjiang and Tibet, its suppression of democracy in Hong Kong, and its increasingly aggressive posture in the Taiwan Strait and South China Sea.[42]

Although the communiqué did not issue any recommendations for collective action, its strong condemnation of Chinese policies comes in the context of growing pushback against China's aggressive global posture. The EU recently paused the ratification of the EU-China Comprehensive Agreement on Investment (CAI), which was concluded in December 2020. The EU's actions came after China sanctioned European politicians and researchers in retaliation for the EU's sanctions on Chinese officials involved in human rights abuses in Xinjiang.[43] Finance ministers at the G7 summit also discussed concerns regarding China's digital currency, which could give the Chinese government the ability to access transaction-level data and block certain transactions.[44] Echoing an October 2020 joint statement in which G7 leaders called for digital currencies to abide by principles of transparency and rule of law, leaders at this year's G7 summit discussed developing an international regulatory framework to begin setting digital currency standards as multiple countries consider issuing their own form of digital currency.[45]

"Notice of Listing on the Stock Exchange of Hong Kong Limited," *Stock Exchange of Hong Kong Limited*, May 6, 2016. *http://www-file.huawei.com/-/media/CORPORATE/PDF/bond-investor-relations/2016-4-listing-application-formal-notice.pdf*.

[*] An exception is China Communications Construction Group (Limited), an unlisted conglomerate and the parent company of China Communications Construction Company Limited (CCCC). CCCC was included on both the previous and current lists, and has listed subsidiaries on both the Shanghai and Hong Kong Stock Exchanges. China Communications Construction Company Limited via S&P Capital IQ Database, December 31, 2020.

[†] The G7 consists of seven democratic advanced economies: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. The countries' heads of state as well as representatives from the EU meet annually to discuss economic policies and issues of global governance. The United Kingdom is hosting the 2021 G7 Summit. Sophie Morris, "What Is the G7? 2021 Summit Sees Boris Johnson Host Biden, Macron and Others in Cornwall," *Sky News*, June 6, 2021. *https://news.sky.com/story/g7-summit-2021-when-is-it-whats-happening-and-where-is-carbis-bay-12322236*.

[‡] APEC consists of 21 economies: Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, United States, and Vietnam. At the APEC Summit, which occurs annually, members meet to discuss economic policies for regional growth, integration, and sustainability. Asia Pacific Economic Cooperation, "About Us." *https://www.apec.org/about-us/about-apec*.

APEC members reach agreement on promoting vaccine access. The APEC Trade Ministers Meeting, held virtually on June 5, 2021, focused on managing novel coronavirus (COVID-19) and economic recovery among member economies. A joint statement from this year's summit focused on members' desire to ease access to vaccines,[*] and while the United States and China agreed on some paths forward, they continue to fundamentally disagree with one another's vaccine distribution strategy. The joint statement encouraged members to reevaluate any existing tariffs on vaccines and related goods to ensure they do not create unnecessary barriers to trade; it also urged members to voluntarily reduce the costs of said products.[46] Although average APEC tariffs on vaccines are only 0.8 percent, average tariffs on other products in vaccine supply chains (e.g., alcohol solutions, cold chain equipment, and packaging) are above 5 percent, with tariffs reaching 30 percent in some APEC economies.[47] As key suppliers along these supply chains, both the United States and China would likely benefit from the tariff reductions.[48] Discussions at the forum also touched on proposals for an intellectual property waiver for vaccine patents at the WTO, for which both the United States and China have voiced their support.[49] While other major economies involved in medical supply chains, such as EU, have not voiced their support for the proposal, alignment between the world's two largest vaccine producers may help drive the proposal's progress in multilateral fora.[50]

Initial U.S.-China phone calls show no signs of softening U.S. policy toward China. In May 2021, U.S. Trade Representative Katherine Tai and U.S. Secretary of the Treasury Janet Yellen held separate calls with China's Vice Premier Liu He, marking the first high-level dialogue between U.S. and Chinese economic officials in nine months.[51] Vice Premier Liu is a key economic advisor to General Secretary of the Chinese Communist Party (CCP) Xi Jinping and has led China's side in U.S.-China talks that resulted in the signing of the Phase One trade deal. Less than two weeks later, U.S. Secretary of Commerce Gina Raimondo spoke with her counterpart, newly appointed Chinese Minister of Commerce Wang Wentao, in what Chinese media called a "candid and pragmatic exchange of views."[52] Appointed in December 2020, Wang is expected to be more proactive than his predecessor in promoting China's market opening while bolstering multilateral and bilateral economic and trade cooperation.[53] Official U.S. and Chinese readouts were vague about the content of all three conversations, though both sides expressed desire to maintain more consistent communication.[54]

As the Biden Administration continues to evaluate China's compliance with the Phase One trade deal, tariffs levied by the Trump Administration remain in place.[55] When asked about her thoughts on U.S. trade policy toward China, Ambassador Tai said she "respects" the Biden Administration's policy continuity and hopes to build upon the January 2020 Phase One trade deal.[56] Ambassador Tai also signaled that the Biden Administration is unlikely to take a softer stance toward China as it strives to "bring balance back to the U.S.-China trade relationship," which she described as unhealthy and damaging to elements of the U.S. economy.[57]

CCP Seeks to Strengthen Commodity Price Controls

The National Development and Reform Commission (NDRC), China's top economic planning agency, released an action plan on pricing reform. The plan, published May 25, provides top-level guidance rather than specific policy measures, calling for the prices of what it terms "competitive business sectors" to be "mainly determined by the market" by 2025.[58] The plan notes, however, that the government will continue to make "timely adjustments" to the prices of commodities such as iron ore, copper, and natural gas through measures including stockpiling reserves and adjusting import and export policies.[59] The document also outlined plans to strengthen price controls and prevent fluctuations in "livelihood commodities" such as grain, meat, and eggs.[60]

While the NDRC plan chiefly focuses on longer-term objectives to address commodity prices, its release coincides with a rapid increase in prices, which worries CCP policymakers. Prices for commodities such as

[*] On June 10, 2021 President Biden announced that the United States would purchase and donate 500 million Pfizer vaccine doses to 100 low and lower-middle income countries around the world in addition to the 80 million vaccine doses already being sent to global partners through the UN-backed Covax initiative by the end of June. China has donated approximately 22 million vaccine doses, while it has sold approximately 732 million doses internationally. White House, "Remarks by President Biden on the COVID-19 Vaccination Program and the Effort to Defeat COVID-19 Globally," June 10, 2021. *https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/06/10/remarks-by-president-biden-on-the-covid-19-vaccination-program-and-the-effort-to-defeat-covid-19-globally/*; White House, "Statement by President Joe Biden on Global Vaccine Distribution," June 3, 2021. *https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/03/statement-by-president-joe-biden-on-global-vaccine-distribution/*; Bridge Consulting, "China COVID-19 Vaccine Tracker," May 31, 2021. *https://bridgebeijing.com/our-publications/our-publications-1/china-covid-19-vaccines-tracker/*.

iron ore and copper have risen more than 20 percent so far this year as China, the United States, and other major economies continue to recover from the economic slowdown caused by the COVID-19 pandemic.[61] China's producer price index rose 6.8 percent year-on-year in April, the fastest pace in more than three years.[62] As a result of surging commodities prices, the value of Chinese imports grew 51.1 percent year-on-year in June, the highest year-on-year increase since January 2011.[63] According to Julian Evans-Pritchard, senior China economist at Capital Economics, this increase occurred even as import volumes likely ticked down in May.[64]

To date, high commodities prices have not resulted in significant downstream inflation, as falling pork prices and competition among Chinese businesses have kept prices low for consumers.[65] Nevertheless, continued inflation pressure has led to attempts by Chinese regulators to stem what they view as potentially destabilizing price growth. China's government has been urging greater domestic production of some commodities, such as coal, which saw production increase by 16 percent in Q1 2021 over the same time period last year.[66] This jump is partly inflated by factory closures last year related to COVID-19, but it also reflects efforts to alleviate supply shortages. The CCP's political decisions, not just economics, have precipitated China's recent coal shortages: since China placed strict quotas on Australian coal amid increasing friction in the bilateral relationship, its coal imports plummeted.[67]

Chinese regulators have attempted other forms of influencing commodities markets in addition to production increases. On May 12, China's State Council issued a statement calling for "adjustments to deal with the excessively rapid rise in commodity prices."[68] These "adjustments" have included higher transaction fees, new tax rules, and censoring industry research that drives speculative investment.[69] Chinese regulators have sought to cut down on hoarding among commodities producers and speculative commodities investments in China's domestic markets, which regulators view as key drivers of the price jumps.[70] On May 23, the NDRC summoned executives of top metals producers for a meeting in Beijing, where it threatened them with punishment for "excessive speculation" and said it would show "zero tolerance" for monopoly behavior.[71]

The CCP's efforts to control commodities prices have enjoyed some short-term success. Scrutiny from the CCP has led Chinese commodities firms to reduce investments in commodities markets, and many producers have also stopped stockpiling commodities in hopes of future price increases. Both of these actions have dampened prices.[72] According to a June 4 Bloomberg report, prices of coal and steel rebar fell as much as 22 percent from highs in May.[73] In the longer term, however, many analysts question whether the CCP will be able to meaningfully suppress the rise of commodities prices, given high global demand, supply constraints, and China's status as a net importer of many key commodities.[74] A May 27 report from Goldman Sachs also highlighted rising labor costs in China and increased efforts by the CCP to address environmental concerns as factors that have dampened China's influence in global markets. The report advised clients to "buy the China led dip," concluding that the Chinese government had exhausted its ability to control prices of key commodities.[75]

In Focus: Wall Street Seizes on China's Burgeoning Wealth Management Sector

The Chinese government is widening foreign access to its wealth management* sector in a bid to capitalize on foreign expertise and use it to optimize China's financial system. In remarks delivered at a financial forum in October 2020, Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission (CBIRC), said the Chinese government welcomes foreign financial services firms with expertise in risk control, pension management, consumer finance, wealth management, and health insurance to "vitalize" China's financial sector.[76] While still cautious about giving foreign financial institutions too prominent a role, regulators seek to draw on foreign financial firms' expertise to build a savings infrastructure that can help manage future economic challenges, such as an aging population.[77] Chinese state-owned banks are also keen to partner with foreign firms. According to the chairman of Bank of China's wealth management subsidiary, the bank's joint venture with Amundi Asset Management enables it to learn from the firm's "expertise in asset allocation … and risk control."[78] While the entry of foreign firms into China's $18.9 trillion asset management market does not directly facilitate inflows of foreign

* Wealth management, broadly defined, is a financial advisory discipline that incorporates a diverse range of services to manage affluent clients' overall wealth. Wealth management includes investment management advice alongside other financial advice, such as tax guidance and estate planning. This broader, integrated approach differs from other financial advisory services such as investment management, which narrowly focuses on the professional management of securities and other assets in order to meet specified investment goals.

capital into China's financial system, it does make China's underdeveloped financial markets appear more sophisticated. As more established international financial services firms expand operations in China to serve Chinese investors, foreign investors may view the Chinese market more broadly as a viable investment opportunity despite its significant risks.[*]

Global financial services firms are expanding into China's wealth management sector as the Chinese government accelerates regulatory approvals. On May 26, Goldman Sachs became the second U.S. firm to receive approval from the CBIRC to establish a wealth management joint venture with the Industrial and Commercial Bank of China (ICBC).[79] Goldman Sachs Asset Management will own 51 percent of the new venture while an ICBC wealth management subsidiary will own the remaining 49 percent.[†][80] U.S. asset manager BlackRock previously received approval for its own joint venture wealth management business on May 12, forming a partnership with China Construction Bank and Singapore's state-owned holding company Temasek.[81] Britain's Schroders PLC and France's Amundi Asset Management received similar approvals in February 2021 and December 2019, respectively.[82] Separately, JPMorgan Chase & Co. agreed to pay $410 million for a minority stake in a wealth management business owned by China Merchants Bank in March, marking the first time a Chinese bank opened up its wealth management subsidiary to a foreign strategic investor.[83]

Chinese regulators' approvals for wealth management joint ventures come amid rapid growth in investable assets in China. According to the Investment Company Institute, China pulled ahead of established markets such as France, the United Kingdom, Japan, and Australia to become the world's fifth-largest source of fund assets[‡] in 2020, up from the tenth position in 2019.[84] Consultancy Oliver Wyman forecasts China's wider asset management market could reach $30 trillion in value by 2023 while Goldman Sachs expects there to be $70 trillion in total investable assets across Chinese households by 2030 (see Figure 2).[85] China's high savings rate compared to other countries makes the Chinese market more attractive to foreign financial services firms. A June 2020 Boston Consulting Group report found the savings rate for Chinese households averaged 25 percent over the past two decades compared with an average savings rate of less than 10 percent for U.S. and European households.[86] Partnerships with Chinese banks give foreign financial services firms access to these savers by allowing access to those banks' existing customer bases. ICBC, for example, has 680 million retail customers, more than double the U.S. population.[87]

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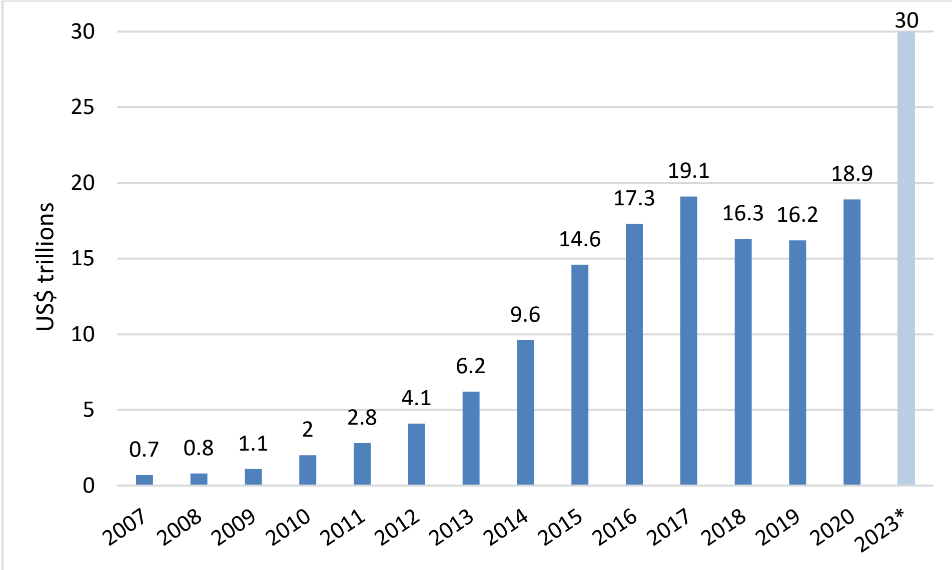
[*] For more on systemic risks and vulnerabilities in China's financial system and the Chinese government's pursuit of foreign capital, see U.S.-China Economic and Security Review Commission, Chapter 2, Section 2, "Vulnerabilities in China's Financial System and Risks for the United States," in *2020 Annual Report to Congress*, December 2020, 243–292.

[†] As part of the venture, Goldman Sachs will develop a range of investment products including cross-border products and quantitative investment strategies. An ICBC press release added the joint venture entity will offer wealth management products, investment advisory services, and other businesses to be approved by the CBIRC. Goldman Sachs will have access to ICBC's existing 680 million personal banking customers, which includes 26 million wealth management customers. The joint venture's first products could be introduced to ICBC customers as soon as 2022 pending final regulatory approval. At the end of 2020, ICBC had $2.5 trillion in assets under management. *Industrial and Commercial Bank of China*, "ICBC Approved to Establish Joint Venture Wealth Management Company with Goldman Sachs" (中国工商银行获批与高盛合作筹建合资理财公司), May 26, 2021. Translation. *http://www.icbc.com.cn/icbc/%E5%B7%A5%E8%A1%8C%E9%A3%8E%E8%B2%8C/%E5%B7%A5%E8%A1%8C%E5%BF%AB%E8%AE%AF/%E4%B8%AD%E5%9B%BD%E5%B7%A5%E5%95%86%E9%93%B6%E8%A1%8C%E8%8E%B7%E6%89%B9%E4%B8%8E%E9%AB%98%E7%9B%9B%E5%90%88%E4%BD%9C%E7%AD%B9%E5%BB%BA%E5%90%88%E8%B5%84%E7%90%86%E8%B4%A2%E5%85%AC%E5%8F%B8.htm*; *Sina*, "ICBC and Goldman Sachs Become Fourth Foreign-owned Wealth Management Company to Receive Approval for Establishment" (工商银行携手高盛 中国第 4 家外资控股理财公司获批筹建), May 26, 2021. Translation. *https://finance.sina.com.cn/chanjing/cyxw/2021-05-26/doc-ikmyaawc7640745.shtml*; Chad Bray, "Goldman Sachs, ICBC to Form China Wealth Management Joint Venture," *South China Morning Post*, May 25, 2021. *https://www.scmp.com/business/banking-finance/article/3134799/goldman-sachs-icbc-form-china-wealth-management-joint*.

[‡] The Investment Company Institute defines fund assets as worldwide regulated open-end funds. These include mutual funds, exchange-traded funds, and institutional funds. Investment Company Institute, "Statistics: Quarterly Worldwide Mutual Fund Market," March 17, 2021. *https://www.ici.org/statistics*.

Figure 2: Estimated Assets under Management in China, 2007–2023



Note: Estimates for assets under management in the years 2007–2019 as well as the 2023 forecast are sourced from Oliver Wyman research. The 2020 estimate is sourced from a joint report produced by Boston Consulting Group and China Everbright Bank.
Source: Charlie Zhu and Jun Luo, "Goldman Forms Wealth Venture with China's Largest Bank," *Bloomberg*, May 25, 2021. *https://www.bloomberg.com/news/articles/2021-05-25/goldman-wins-nod-for-china-wealth-management-venture-with-icbc?sref=mxbIZFb4*; Thomas Hale, "Goldman Wins Approval for Wealth Management Deal in China," *Financial Times*, May 25, 2021. *https://www.ft.com/content/263c5b4a-8c29-485a-8b25-20f74c04ae7d*.

Chinese regulators are experimenting with relaxing capital controls as they approve more foreign wealth management joint ventures and as China's integration with global financial markets heightens. The gradual stream of approvals for foreign firms to establish wealth management businesses in China, many of which plan to market cross-border investment products, accompanies widening Chinese investor access to offshore investment opportunities.[*] While the Chinese government continues to maintain strict capital controls, it has in recent years introduced various cross-border trading schemes to allow mainland investors to diversify their investments, such as the Stock and Bond Connect programs. The planned launch of the Hong Kong Wealth Management Connect program later this year could accelerate the trend.[†] Separately, a Qualified Domestic Limited Partnership pilot program under consideration in Shanghai would create an additional outbound investment scheme allowing foreign financial firms to raise renminbi (RMB) funds to invest in overseas assets.[88] The Chinese government's easing of capital controls through such mechanisms could relieve upward pressure on the RMB because it allows capital to

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[*] China's selective easing of capital controls and Chinese investors' expanded access to global financial markets raises the risk that the speculative trading activity of some Chinese retail investors could spill over into and destabilize global markets. China's retail investors can currently trade international equities through technology platforms such as Moomoo and Futu, often targeting the American depositary shares of Chinese companies which trade exclusively on U.S. exchanges. The rise of similar platforms in the United States such as Robinhood, which facilitate rapid and low-cost trading activity, challenged U.S. stock markets and regulators in 2021 following a frenzy of volatile trading activity in the stock of videogame retailer GameStop. Witnesses at a March 2021 Senate Banking Committee hearing discussed how existing U.S. regulations may struggle to keep pace with an uptick in technology-enabled retail trading activity. Jody Xu Klein, "If Chinese Traders Enter U.S. Markets, They May Bring Volatility with Them," South China Morning Post, March 22, 2021. *https://www.scmp.com/news/china/money-wealth/article/3126504/if-chinese-traders-enter-us-markets-they-may-bring*; United States Senate Committee on Banking, Housing, and Urban Affairs, *Who Wins on Wall Street? GameStop, Robinhood, and the State of Retail Investing*, March 9, 2021. *https://www.banking.senate.gov/hearings/who-wins-on-wall-street-gamestop-robinhood-and-the-state-of-retail-investing*; Berber Jin, "U.S. Stocks are Keeping China's Amateur Investors Awake at Night," Bloomberg Quint, August 17, 2020. *https://www.bloombergquint.com/markets/investing-news-how-traders-buy-u-s-stocks-from-china*.

[†] The Wealth Management Connect pilot program, to be launched at an undetermined date in 2021, will allow residents of Chinese mainland cities in the Guangdong-Hong Kong-Macao Greater Bay Area to invest in wealth management products sold by banks in Hong Kong and Macau. Hong Kong and Macau residents will be able to invest in eligible products distributed by mainland banking institutions in the Greater Bay Area. Draft regulations on the program stipulate transactions are capped at RMB 150 billion ($23.4 billion) in each direction, or RMB 1 million ($156,201.45) per individual. Wei Yiyang and Guo Yingzhe, "Four Things to Know about Greater Bay Area's Cross-Border Wealth Management Plans," *Caixin*, May 7, 2021. *https://www.caixinglobal.com/2021-05-07/four-things-to-know-about-greater-bay-areas-cross-border-wealth-management-plans-101707929.html*.

flow out of the Mainland and counterbalance a surge in capital inflows, which have led the RMB to gain almost 12 percent against the U.S. dollar since May 2020.[89]

Though opening of China's financial services sector is picking up, U.S. firms continue to encounter operational challenges. Foreign financial firms seeking to operate in China need separate licenses for different business activities, such as asset management and securities trading.[90] By contrast, in the United States, firms registered as investment advisers with the U.S. Securities and Exchange Commission can conduct both lines of business without a need for distinct licenses or approvals.[91] Foreign managers in China describe licensing demands as excessively onerous, noting entire teams of underwriters or risk officers must be in place before receiving relevant licenses, in turn imposing heavy staffing costs before any revenue can be earned.[92] Such regulatory burdens can hinder U.S. firms' market expansion in China.[*] The constraints on access and operations in China's financial markets may also dim prospects for a recovery in U.S. services exports to China, which contracted 32.9 percent year-on-year in 2020.[†]

Appendix: Chinese Firms Subject to Ban on U.S. Investment, Before and After the New EO

Note: Companies are listed alphabetically. Those that appear in both columns are on both lists. Companies in grey have been removed from the new list. Companies in red are new additions to the list.

Trump Administration EO	Biden Administration EO
Advanced Micro-Fabrication Equipment Inc. (AMEC)	
Aero Engine Corporation of China (AECC)	Aero Engine Corporation of China
	Aerospace CH UAV Co., Ltd
	Aerospace Communications Holdings Group Company Limited
	Aerosun Corporation
	Anhui Greatwall Military Industry Company Limited
Aviation Industry Corporation of China, Ltd (AVIC)	Aviation Industry Corporation of China, Ltd.
	AVIC Aviation High-Technology Company Limited
	AVIC Heavy Machinery Company Limited
	AVIC Jonhon Optronic Technology Co., Ltd.
	AVIC Shenyang Aircraft Company Limited
	AVIC Xi'an Aircraft Industry Group Company Ltd.
Beijing Zhongguancun Development Investment Center	
	Changsha Jingjia Microelectronics Company Limited
China Academy of Launch Vehicle Technology (CALT)	China Academy of Launch Vehicle Technology
China Aerospace Science and Industry Corporation (CASIC)	China Aerospace Science and Industry Corporation Limited
China Aerospace Science and Technology Corporation (CASC)	China Aerospace Science and Technology Corporation
	China Aerospace Times Electronics Co., Ltd
	China Avionics Systems Company Limited

[*] For example, in March 2021, Vanguard Group shelved plans to obtain a mutual fund license given related regulatory difficulties. Chinese regulators have also asked U.S. asset management firms Fidelity and Neuberger Berman to pledge liquidity support for the mutual fund licenses they are seeking, raising concerns about capital costs. John Liu et al., "Shock and Tears: Behind Vanguard's Retreat from the China Market," *Bloomberg*, April 28, 2021. *https://www.bloomberg.com/news/articles/2021-04-28/shock-and-tears-behind-vanguard-s-retreat-from-china-s-market?sref=mxbIZFb4*.

[†] For more on the U.S.-China services trade balance in 2020, see U.S.-China Economic and Security Review Commission, "Pandemic Impacts Bring U.S.-China Services Trade to New Low in 2020" in *Economics and Trade Bulletin*, May 18, 2021, 4–6. *https://www.uscc.gov/sites/default/files/2021-05/May_2021_Trade_Bulletin.pdf*.

China Communications Construction Company Limited (CCCC)	China Communications Construction Company Limited
	China Communications Construction Group (Limited)
China Construction Technology Co. Ltd. (CCTC)	
China Electronics Corporation (CEC)	China Electronics Corporation
China Electronics Technology Group Corporation (CETC)	China Electronics Technology Group Corporation
China General Nuclear Power Corporation (CGNPC)	China General Nuclear Power Corporation
China International Engineering Consulting Corporation (CIECC)	
	China Marine Information Electronics Company Limited
China Mobile Communications Group Co Ltd	China Mobile Communications Group Co., Ltd.
	China Mobile Limited
China National Aviation Holding Co. Ltd. (CNAH)	
China National Chemical Corporation (ChemChina)	
China National Chemical Engineering Group Corporation (CNCEC)	
China National Nuclear Corporation (CNNC)	China National Nuclear Corporation
China National Offshore Oil Corporation (CNOOC)	China National Offshore Oil Corporation
China North Industries Group Corporation	China North Industries Group Corporation Limited
China Nuclear Engineering & Construction Corporation (CNECC)	China Nuclear Engineering Corporation Limited
China Railway Construction Corporation Limited (CRCC)	China Railway Construction Corporation Limited
	China Satellite Communications Co., Ltd.
China Shipbuilding Industry Corporation (CSIC)	China Shipbuilding Industry Company Limited
	China Shipbuilding Industry Group Power Company Limited
China South Industries Group Corporation (CSGC)	China South Industries Group Corporation
China Spacesat	China Spacesat Co., Ltd.
China State Construction Group Co., Ltd.	
China State Shipbuilding Corporation (CSSC)	China State Shipbuilding Corporation Limited
China Telecommunications Corporation	China Telecom Corporation Limited
China Three Gorges Corporation	China Telecommunications Corporation
	China Unicom (Hong Kong) Limited
China United Network Communications Group Co (China Unicom)	China United Network Communications Group Co., Ltd.
Commercial Aircraft Corporation of China, Ltd. (COMAC)	
CRRC Corporation Limited	
	CNOOC Limited (a subsidiary of CNOOC)
	Costar Group Co., Ltd.*
	CSSC Offshore & Marine Engineering (Group) Company Limited
Dawning Information Industry Co. (Sugon)	

* Costar Group Co., Ltd. is an optics company that changed its name from Lida Optical and Electronic Co., Ltd. in 2019. It is an affiliate of China South Industries Group, a major supplier of ordnance to China's military and a CCMC restricted under both EO 13959 and the latest EO. Costar Group Co., Ltd. is unaffiliated with the NASDAQ-listed CoStar Group, Inc., a real estate analytics and marketing firm headquartered in Washington, D.C. CoStar Group, Inc. via S&P Capital IQ Database, June 2, 2021; CNInfo via S&P Capital IQ Database, December 31, 2020.

	Fujian Torch Electron Technology Co., Ltd.
Global Tone Communication Technology Co., Ltd.	
GOWIN Semiconductor Corporation	
Grand China Air Co., Ltd.	
	Guizhou Space Appliance Co., Ltd
Hangzhou Hikvision Digital Technology Co., Ltd. (Hikvision)	Hangzhou Hikvision Digital Technology Co., Ltd.
	Huawei Investment & Holding Co., Ltd.
Huawei	Huawei Technologies Co., Ltd.
	Inner Mongolia First Machinery Group Co., Ltd.
Inspur	Inspur Group Co., Ltd.
	Jiangxi Hongdu Aviation Industry Co., Ltd.
Luokung Technology Corp. (LKCO)	
	Nanjing Panda Electronics Company Limited
	North Navigation Control Technology Co., Ltd.
Panda Electronics Group	Panda Electronics Group Co., Ltd.
	Proven Glory Capital Limited (a subsidiary of Huawei)
	Proven Honour Capital Limited (a subsidiary of Huawei)
Semiconductor Manufacturing International Corporation (SMIC)	Semiconductor Manufacturing International Corporation
	Shaanxi Zhongtian Rocket Technology Company Limited
SinoChem Group Co Ltd	
Xiaomi Corporation	
	Zhonghang Electronic Measuring Instruments Company Limited

Source: Various.[93]

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